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To: All Surveyors/Auditors

Applicable to flag: All Flags

**The E.U. Ship Recycling Regulation**

Reference: Hong Kong Convention

**The E.U. Ship Recycling Regulation**

In five months from today, the European Union will be implementing regulations mandating that all the end-of-life EU-flagged vessels will have to be recycled in facilities that are included in the European list of approved ship recycling facilities. While at present about 95 percent of the global recycling takes place in five countries, all outside Europe, on the other hand the European list of approved yards currently only contains yards that are located in the European Union. While the shipping community is focused on the IMO 2020 sulfur cap and the Ballast Water Management Convention, which are of course important issues, the E.U. ship recycling regulations that are ready to be applied are equally important and will have massive implications for the shipping industry's future for a number of reasons:

**Capacity:** There is not enough capacity in Europe to recycle all the E.U.-flagged ships. Even the European Community Shipowners' Associations (ECSA) reported in a public statement: "The current edition of the E.U. list of approved ship recycling facilities only features yards situated in Europe and has a capacity of around 300,000 light displacement tonnes (LDT). For ECSA, this demonstrates clearly that only when third country ship recycling yards will get E.U. recognition and added to the list, there will be sufficient capacity."

We also need to understand that there is a discrepancy between the actual recycling capacity and the theoretical capacity and that some of the European yards that are included in the capacity figure have not been recycling vessels.

**Catastrophic drop in Asset Values:** If all the E.U.-flagged vessels are forced to be recycled within the European Union, then the owners will not only struggle to find capacity but also the asset values are expected to depreciate by up to 75 percent. For example, a VLCC with a residual value of \$16 million in India today may be worth less than \$4 million in an E.U. yard. In addition, we must not forget that until today a VLCC has never been recycled in an E.U.-based yard.

**E.U. versus the Hong Kong Convention:** The implementation of the regulation that the European Commission appears to be heading, whereby it is not supporting the development/improvements that are taking place in the major recycling centers of the world, is undermining the role of the Hong Kong Convention and destabilizing the industry as a whole with significant repercussions that the European Commission either ignores or disregards.

**Quality:** The majority of yards in India have been significantly upgraded to meet the standards of the

*Customer Service Center*

*5201 Blue Lagoon Drive, 9<sup>th</sup>. Floor,  
Miami, Fl., 33126*

*Tel: 1 (305) 716 4116,*

*Fax: 1 (305) 716 4117,*

*E-Mail:*

[joel@conarinagroup.com](mailto:joel@conarinagroup.com)

*Technical Head Office*

*7111 Dekadine Ct.*

*Spring, Tx., 77379*

*Tel: 1 (832) 451 0185,*

*1 (713) 204 6380*

*E-Mail: [vbozenovici@vcmaritime.com](mailto:vbozenovici@vcmaritime.com)*

Hong Kong Convention. These yards have been vetted and approved by IACS-members like ClassNK, RINA and IRS. Several E.U. owners have successfully recycled their vessels at these facilities and vouch for their quality standards.

**Urgency and Relevance:** This is the last window of opportunity to deliberate this issue before the E.U. regulation is implemented.

As we are now approaching the date of the regulation's implementation, we must alert both the European Commission and the shipping community to "brace for impact" as undoubtedly there will be a massive disruption in the shipping industry that could potentially lead to significant repercussions, unless Hong Kong Convention compliant yards in traditional ship recycling countries are approved by the European Commission and included in the European list of approved yards.

REFERENCES:

- Hong Kong Convention, Courtesy Michail Matthaiakis

- ATTACHMENTS: No.

Kindest Regards,

Val Bozenovici

Naval Architect – Conarina Technical Director

*Customer Service Center  
5201 Blue Lagoon Drive, 9<sup>TH</sup>. Floor,  
Miami, Fl., 33126  
Tel: 1 (305) 716 4116,  
Fax: 1 (305) 716 4117,  
E-Mail:*

[joel@conarinagroup.com](mailto:joel@conarinagroup.com)

*Technical Head Office  
7111 Dekadine Ct.  
Spring, Tx., 77379  
Tel: 1 (832) 451 0185,  
1 (713) 204 6380*

*E-Mail: [vbozenovici@vcmaritime.com](mailto:vbozenovici@vcmaritime.com)*